

**SAN JUAN HEALTH SERVICES DISTRICT**  
**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**  
**AND**  
**FINANCIAL STATEMENTS**

**December 31, 2005 and 2004**

**HANSEN, BARNETT & MAXWELL**  
A Professional Corporation  
CERTIFIED PUBLIC ACCOUNTANTS

## SAN JUAN HEALTH SERVICES DISTRICT

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Registered with the Public Company  
Accounting Oversight Board



## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
San Juan Health Services District  
Monticello, Utah

We have audited the accompanying balance sheets of San Juan Health Services District (the "District"), a component unit of San Juan County, as of December 31, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended, which collectively comprise the District's basic financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Juan Health Services District as of December 31, 2005 and 2004, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 8, 2006, on our consideration of San Juan Health Services District's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the Hospital's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

*Hansen Barnett & Maxwell*  
HANSEN BARNETT & MAXWELL

Salt Lake City, Utah  
March 8, 2006

**SAN JUAN HEALTH SERVICES DISTRICT  
SAN JUAN HOSPITAL AND CLINICS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

As management of San Juan Health Services District (the Hospital), we offer readers of the Hospital's financial statements this narrative overview and analysis of the financial activities of the Hospital for the fiscal year ended December 31, 2005.

**History and Background of San Juan Health Services District**

The Health District was organized in 1988 as a non-profit entity and operates the San Juan Hospital, Birthing Center and Clinics. It is considered a component unit of San Juan County, Utah. The Hospital receives an annual property tax levy distribution from San Juan County to provide financial assistance in operating the Hospital. The Health District consists of the Hospital, birthing center, and two clinics. The hospital services the medical needs of individuals residing in San Juan County, Utah and the surrounding area.

**Financial Highlights**

These financial statements were prepared in accordance with the Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. These financial statements differ significantly in both the form and the accounting principles utilized for prior financial statements.

**Overview of the Financial Statements**

As required by GASB No. 34 there are three basic financial statements which provide information on the Hospital as a whole: the Balance Sheet; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows.

**Balance Sheet**

The Balance Sheet presents the assets, liabilities, and net assets of the Hospital as of the end of the fiscal year. The Balance Sheet is a point in time financial statement that provides a fiscal snapshot of the Hospital.

Readers of the Balance Sheet are able to determine the assets available to continue the operations of the Hospital. They are also able to determine how much the Hospital owes vendors, employees and lending institutions. Finally, the Balance Sheet provides the amount of net assets (assets minus liabilities) and their availability for expenditure by the Hospital.

Net assets are divided into three major categories. The first category, "restricted," represents restricted revenues received by the Hospital which have not yet been expended for their intended purpose. The next category, "invested in capital assets, net of related debt," provides the Hospital's equity in property, plant and equipment owned by the Hospital. The final category is "unrestricted." These net assets are available to the Hospital for any lawful purpose of the Hospital.

### Condensed Balance Sheets

Assets	2005	2004	2003
Current and other assets	\$ 2,582,683	\$ 2,798,830	\$ 2,615,903
Capital assets, net	2,407,518	2,899,773	3,383,929
<b>Total Assets</b>	<b>4,990,201</b>	<b>5,698,603</b>	<b>5,999,832</b>
Liabilities			
Current Liabilities	670,016	675,367	664,040
Long-Term Liabilities	517,013	557,223	594,694
<b>Total Liabilities</b>	<b>1,187,029</b>	<b>1,232,590</b>	<b>1,258,734</b>
Net assets			
Restricted	-	3,016	-
Invested in capital assets, net of related debt	2,369,025	2,841,071	3,306,933
Unrestricted	1,434,147	1,621,926	1,434,165
<b>Total Net Assets</b>	<b>\$ 3,803,172</b>	<b>\$ 4,466,013</b>	<b>\$ 4,741,098</b>

For 2005, the Hospital's current assets of \$2.6 million were sufficient to cover current liabilities of \$670,000 (current ratio of 3.9). Also the total assets of \$5.0 million are sufficient to cover total liabilities of \$1.2 million (debt ratio of 0.2).

For 2004, the Hospital's current assets of \$2.8 million were sufficient to cover current liabilities of \$675,000 (current ratio of 4.1). Also the total assets of \$5.7 million are sufficient to cover total liabilities of \$1.2 million (debt ratio of .2).

### Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Balance Sheet are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the Hospital, both operating and non-operating, and the expenses paid by the Hospital, both operating and non-operating.

Operating revenues are received for providing health care service to patients of the Hospital. Operating expenses are those expenses paid to be able to provide the services provided in return for the operating revenues. Non-operating revenues are revenues received for which services are not provided.

### Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total Operating Revenue	\$ 6,363,298	\$ 7,331,292	\$ 6,360,902
Total Operating Expenses	<u>8,234,758</u>	<u>8,686,902</u>	<u>7,739,411</u>
Net Operating Loss	(1,871,460)	(1,355,610)	(1,378,509)
Net Non-Operating Gains	<u>1,208,619</u>	<u>1,080,525</u>	<u>1,984,183</u>
Change in Net Assets	(662,841)	(275,085)	605,674
Net Assets, Beginning of Year	<u>4,466,013</u>	<u>4,741,098</u>	<u>4,135,424</u>
Net Assets, End of Year	<u>\$ 3,803,172</u>	<u>\$ 4,466,013</u>	<u>\$ 4,741,098</u>

### Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the Hospital during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the Hospital. The second section reflects the cash received and spent for non-operating and non-capital financing activities. The third section reflects the cash flows from capital and related financing activities. The fourth section deals with cash flows from investing activities. The fifth section shows the net change in cash and its effect on the Hospital's cash and cash equivalents.

### Condensed Statement of Cash Flows

Cash from:	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating activities	\$ (1,307,927)	\$ (910,067)	\$ (836,319)
Non-capital financing activities	1,186,248	1,109,334	1,871,884
Capital and related financing activities	(95,853)	(227,552)	(956,333)
Investing activities	<u>13,678</u>	<u>5,451</u>	<u>3,244</u>
Net change in cash	(203,854)	(22,834)	82,476
Cash, Beginning of Year	<u>969,198</u>	<u>992,032</u>	<u>909,556</u>
Cash, End of Year	<u>\$ 765,344</u>	<u>\$ 969,198</u>	<u>\$ 992,032</u>

### **Economic Outlook**

The Hospital is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year.

Though the economic condition in San Juan County is depressed, there is optimism for the future. Most significantly, the Health District still has several service options to pursue that will enable the District to grow. Additionally, a railroad manufacturing and a copper mining company anticipate major investments and jobs in San Juan County over the next few years. The Hospital's overall financial position is strong. We constantly explore additional services to offer our patients.



**SAN JUAN HEALTH SERVICES DISTRICT  
BALANCE SHEETS  
DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 765,344	\$ 969,198
Patient accounts receivable, less allowance for doubtful accounts and contractual adjustments of \$611,666 and \$593,456 in 2005 and 2004, respectively	1,457,995	1,475,815
Ad valorem taxes receivable	52,597	20,234
Estimated third party receivable	-	36,912
Inventory of supplies	258,118	267,572
Prepaid expenses	48,629	29,099
<b>Total Current Assets</b>	<u>2,582,683</u>	<u>2,798,830</u>
<b>Capital Assets, Net</b>	<u>2,407,518</u>	<u>2,899,773</u>
<b>Total Assets</b>	<u><u>\$ 4,990,201</u></u>	<u><u>\$ 5,698,603</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 186,187	\$ 119,460
Accrued payroll and related liabilities	323,000	375,806
Estimated third party payable	5,101	-
Current maturities of long-term debt	40,210	37,651
Unamortized bond discount	91,811	91,811
Other current liabilities	23,707	50,639
<b>Total Current Liabilities</b>	<u>670,016</u>	<u>675,367</u>
<b>Long-term debt - net of current maturities</b>	<u>517,013</u>	<u>557,223</u>
<b>Total Liabilities</b>	<u>1,187,029</u>	<u>1,232,590</u>
<b>Net Assets</b>		
Restricted	-	3,016
Invested in capital assets, net of related debt	2,369,025	2,841,071
Unrestricted	1,434,147	1,621,926
<b>Total Net Assets</b>	<u>3,803,172</u>	<u>4,466,013</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 4,990,201</u></u>	<u><u>\$ 5,698,603</u></u>

The accompanying notes are an integral part of these financial statements.

**SAN JUAN HEALTH CARE SERVICES DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Operating Revenue</b>		
Net patient service revenue	\$ 6,179,585	\$ 7,128,664
Other operating revenue	<u>183,713</u>	<u>202,628</u>
<b>Total Operating Revenue</b>	<u>6,363,298</u>	<u>7,331,292</u>
<b>Expenses</b>		
Salaries and benefits	4,367,162	4,702,721
Professional fees and other purchased services	1,168,870	1,137,518
Supplies	746,888	853,587
Utilities	150,096	142,169
Repairs and maintenance	313,993	287,498
Insurance	307,601	338,784
Travel, dues and education	36,794	68,347
Provision for bad debts	438,944	374,440
Depreciation and amortization	526,786	654,542
Other	<u>177,624</u>	<u>127,296</u>
<b>Total Expenses</b>	<u>8,234,758</u>	<u>8,686,902</u>
<b>Loss From Operations</b>	<u>(1,871,460)</u>	<u>(1,355,610)</u>
<b>Nonoperating Gains (Losses)</b>		
Tax revenues	494,597	468,234
Interest income	13,678	5,451
Net loss on disposal of assets	(4,095)	-
Grants and contributions	724,014	628,885
Interest expense	<u>(19,575)</u>	<u>(22,045)</u>
<b>Net Nonoperating Gains</b>	<u>1,208,619</u>	<u>1,080,525</u>
<b>Change in Net Assets</b>	(662,841)	(275,085)
<b>Net Assets, Beginning of Year</b>	<u>4,466,013</u>	<u>4,741,098</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 3,803,172</u></u>	<u><u>\$ 4,466,013</u></u>

The accompanying notes are an integral part of these financial statements.

**SAN JUAN HEALTH SERVICES DISTRICT1**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Cash Flows From Operating Activities</b>		
Cash received from patients and third-party payers	\$ 5,800,475	\$ 6,944,022
Other operating cash receipts	183,713	202,628
Cash paid for operating goods	(1,703,277)	(2,254,644)
Cash paid to employees	<u>(5,588,838)</u>	<u>(5,802,073)</u>
Net Cash From Operating Activities	<u>(1,307,927)</u>	<u>(910,067)</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Subsidy from governmental unit	462,234	480,449
Grants and donations	<u>724,014</u>	<u>628,885</u>
Net Cash From Noncapital Financing Activities	<u>1,186,248</u>	<u>1,109,334</u>
<b>Cash Flows From Capital Financing Activities</b>		
Capital expenditures	(38,627)	(170,384)
Interest paid on long-term debt	(19,575)	(22,044)
Principal payments on long-term debt	<u>(37,651)</u>	<u>(35,124)</u>
Net Cash From Capital Financing Activities	<u>(95,853)</u>	<u>(227,552)</u>
<b>Cash Flows From Investing Activities</b>		
Interest income	<u>13,678</u>	<u>5,451</u>
Net Cash From Investing Activities	<u>13,678</u>	<u>5,451</u>
<b>Net Change in Cash and Cash Equivalents</b>	(203,854)	(22,834)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>969,198</u>	<u>992,032</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>\$ 765,344</u></u>	<u><u>\$ 969,198</u></u>

The accompanying notes are an integral part of these financial statements.

**SAN JUAN HEALTH SERVICES DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Reconciliation of loss from operations to net cash from operating activities:</b>		
Loss from operations	\$ (1,871,460)	\$ (1,355,610)
Adjustments to reconcile loss from operations to net cash from operating activities:		
Depreciation and amortization	526,786	654,542
Provision for bad debts	438,944	374,440
Changes in current assets and liabilities:		
Patient accounts receivable	(421,124)	(522,173)
Estimated third party settlement	42,014	(36,912)
Inventory and prepaid expenses	(10,076)	(33,334)
Other assets	-	38,166
Accounts payable and accrued expenses	<u>(13,011)</u>	<u>(29,186)</u>
<b>Net Cash Flow From Operating Activities</b>	<u><u>\$ (1,307,927)</u></u>	<u><u>\$ (910,067)</u></u>

**Supplemental Disclosures of Cash Flow Information:**

The District disposed of equipment with original costs totaling \$449,064 and accumulated depreciation of \$444,969, resulting in a noncash loss of \$4,095 during the year ended December 31, 2005.

The accompanying notes are an integral part of these financial statements.

**SAN JUAN HEALTH SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** — San Juan Health Services District (the “District”) is organized as a public corporation and is considered a component unit of San Juan County, Utah. The District is included as a discretely presented component unit in the general purpose financial statements of that county. The District operates a 25-bed acute-care hospital located in Monticello, Utah, a 3-bed birthing center located in Blanding, Utah, and clinics in Monticello, and Blanding, Utah.

**Accounting Policies** — The accounting policies of the District conform to accounting principles generally accepted in the United States applicable to government entities. The following is a summary of the more significant accounting policies:

**Enterprise Funds**

The District follows the accounting principles which are applicable to an enterprise or proprietary fund. Revenues and expenses are recognized with a measurement focus on capital maintenance and using the accrual basis of accounting, wherein revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Substantially all revenues and expenses are subject to accrual. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to a private business where the intent of the District is that the costs of providing goods and services on a continuing basis be financed or recovered primarily from user charges, and where the governing body has decided that periodic determination of revenues earned and expenses incurred is appropriate for capital maintenance, public policy, management control, and accountability.

**Accounting Standards** — In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to implement only FASB Statements and Interpretations, APB Opinions and ARBs issued prior to November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**Use of Estimates** — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** — Cash includes short-term investments with a maturity of three months or less, including amounts whose use is limited by board discretion.

**Patient Accounts Receivable** — The District has receivables from its patients, substantially all of whom are residents from the area served by the District. An allowance for uncollectible accounts and third party payor adjustments is established by charges to operations from amounts required to maintain an adequate allowance, as determined by management, to cover anticipated losses. Individual accounts receivable are charged to the allowance when collection appears doubtful. At such time, the accounts are referred to collection agencies. Adjustments for third party payors are charged to operations in the period payments are received. Provision for doubtful accounts is shown separately from contractual revenue adjustments, which are netted against patient service revenues.

**Inventories** — Inventory is accounted for using the consumption method, whereby inventory is recognized at the time purchases are made and expenditures are recognized as an adjustment to the physical count. At year end, inventories are stated at the lower of cost or market, on the first-in, first-out basis.

**Property Tax Calendar** — The San Juan County Treasurer acts as agent for the District in collecting and distributing property tax revenues. Utah statutes establish the process by which taxes are levied and collected. The County assessor is required to assess real property as of January 1 and complete the valuation by May 15. By July 21, the County Treasurer mails property tax notices to the owners. Between August 1 and August 15, a property owner may petition the County Board of Equalization for an adjustment. The County Auditor approves all changes by November 1, at which date, the completed assessments are to be delivered to the County Treasurer. Property tax notices with a due date of November 30 are mailed to property owners. Delinquent taxes are subject to a 2% penalty, with a minimum of ten dollars. If the taxes are not paid by January 15 of the following year, they are subject to an interest charge equal to the federal discount rate. The interest accrues from January 1. If taxes remain delinquent by May of the fifth year, the County will advertise and sell the property at a tax sale.

As of December 31, 2005 and 2004, the District had accrued an ad valorem taxes receivable of \$52,597 and \$20,234, respectively. This receivable represents property taxes levied but uncollected by the County Treasurer at December 31.

**Capital Assets** — Capital asset acquisitions are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of donations. Capital assets are defined as assets with a cost of at least \$5,000. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. The estimated useful lives are as follows:

Land improvements	5-25 years
Buildings and improvements	5-40 years
Equipment	3-20 years

**Donor Restricted Funds** — Donor-restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of unrestricted funds on which donors or grantors place restrictions or that arise as a result of the operations of the District for its stated purposes. Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted fund. At December 31, 2005 and 2004, the District had \$0 and \$3,016, respectively, in restricted net assets that had not yet been spent for the grantor's intended purpose.

**Risk Management** — The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness, and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Statement of Operations** — For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenue and expenses.

**Fair Value of Financial Instruments** — The District has a number of financial instruments, none of which are held for trading purposes. The District estimates that the fair value of all financial instruments at December 31, 2005 and 2004 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying financial statements.

**New Accounting Policy**—GASB Statement No. 40, *Deposits and Investment Risk Disclosures* — amendment of GASB Statement No. 3 was implemented for the fiscal year ended December 31, 2005.

## NOTE 2 – DEPOSITS

**Custodial Credit Risk - Deposits** — Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. The carrying amount of the Hospital's deposits with financial institutions was \$764,795 and \$968,649, the bank balance was \$858,762 and \$1,094,917, and petty cash was \$549 and \$549 at December 31, 2005 and 2004, respectively. Of the carrying amount of deposits, \$464,795 and \$703,097 was in excess of FDIC limits at December 31, 2005 and 2004, respectively.

**Deposit Custodial Credit Risk** – Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk.

**Investments** – The Hospital follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of Hospital funds in a “qualified depository”. The Act defines a “qualified depository” as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also defines the types of securities allowed as appropriate temporary investments for the Hospital and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

**Investment Interest Rate Risk** – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Summary** — The above described Deposits are summarized and presented in the financial statements at cost in accordance with the following analysis:

	<u>2005</u>	<u>2004</u>
Petty Cash	\$ 549	\$ 549
Carrying amount of deposits	764,795	968,649
Total	<u>\$ 765,344</u>	<u>\$ 969,198</u>

### NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 is as follows:

	Balance December 31, 2004	Additions	Retirements	Balance December 31, 2005
Capital assets not being depreciated				
Land	\$ 2,645	\$ -	\$ -	\$ 2,645
Total capital assets not being depreciated	2,645	-	-	2,645
Capital assets being depreciated				
Land improvements	142,400	-	-	142,400
Buildings and improvements	4,823,600	-	(6,750)	4,816,850
Equipment	4,827,476	38,627	(442,314)	4,423,789
Total capital assets being depreciated	9,793,476	38,627	(449,064)	9,383,039
Less: Accumulated depreciation				
Land improvements	(98,568)	(7,634)	-	(106,202)
Buildings and improvements	(3,273,724)	(114,667)	6,671	(3,381,720)
Equipment	(3,524,056)	(404,485)	438,297	(3,490,244)
Total accumulated depreciation	(6,896,348)	(526,786)	444,968	(6,978,166)
Total capital assets being depreciated, net	2,897,128	(488,159)	(4,096)	2,404,873
Total capital assets, net	\$ 2,899,773	\$ (488,159)	\$ (4,096)	\$ 2,407,518

Capital asset activity for the year ended December 31, 2004 is as follows:

	Balance December 31, 2003	Additions	Retirements	Balance December 31, 2004
Capital assets not being depreciated				
Land	\$ 2,645	\$ -	\$ -	\$ 2,645
Total capital assets not being depreciated	2,645	-	-	2,645
Capital assets being depreciated				
Land improvements	142,400	-	-	142,400
Buildings and improvements	4,705,379	118,221	-	4,823,600
Equipment	4,950,561	52,165	(175,250)	4,827,476
Total capital assets being depreciated	9,798,340	170,386	(175,250)	9,793,476
Less: Accumulated depreciation				
Land improvements	(90,872)	(7,696)	-	(98,568)
Buildings and improvements	(3,152,886)	(120,838)	-	(3,273,724)
Equipment	(3,173,298)	(526,008)	175,250	(3,524,056)
Total accumulated depreciation	(6,417,056)	(654,542)	175,250	(6,896,348)
Total capital assets being depreciated, net	3,381,284	(484,156)	-	2,897,128
Total capital assets, net	\$ 3,383,929	\$ (484,156)	\$ -	\$ 2,899,773



## NOTE 4 – LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2005 is as follows:

	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Promissory note to San Juan County with 2.5 percent interest, payable in monthly installments of \$2,551, due December 2027, unsecured	\$ 536,172		\$ (17,442)	\$ 518,730	\$ 17,885
Obligations under capital lease at an imputed interest of 10.0 percent collateralized by leased equipment with cost of \$99,542	58,702		(20,209)	38,493	22,325
Total long-term debt	<u>\$ 594,874</u>	<u>\$ -</u>	<u>\$ (37,651)</u>	<u>\$ 557,223</u>	<u>\$ 40,210</u>

Long-term debt activity for the year ended December 31, 2004 is as follows:

	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004	Due Within One Year
Promissory note to San Juan County with 2.5 percent interest, payable in monthly installments of \$2,551, due December 2027, unsecured	553,002		\$ (16,830)	\$ 536,172	\$ 17,442
Obligations under capital lease at an imputed interest of 10.0 percent collateralized by leased equipment with cost of \$99,542	76,996		(18,294)	58,702	20,209
Total long-term debt	<u>\$ 629,998</u>	<u>\$ -</u>	<u>\$ (35,124)</u>	<u>\$ 594,874</u>	<u>\$ 37,651</u>

The following is a summary of the future maturities of the promissory notes outstanding at December 31, 2005:

Year Ending December 31,	Principal	Interest	Total
2006	\$ 17,885	\$ 12,724	\$ 30,609
2007	18,339	12,270	30,609
2008	18,804	11,805	30,609
2009	19,281	11,328	30,609
2010	19,770	10,839	30,609
2011-2015	106,635	46,412	153,047
2016-2020	120,859	32,188	153,047
2021-2025	136,976	16,071	153,047
2026-2027	60,181	1,038	61,219
	<u>\$ 518,730</u>	<u>\$ 154,676</u>	<u>\$ 673,406</u>

Obligations under capital lease at December 31, 2005 represent an equipment lease payable in monthly installments including interest. This capital lease has imputed interest of 10.0 percent. The lease is secured by equipment, with a stated cost of \$99,542 and accumulated amortization of \$66,361 at December 31, 2005.

Scheduled repayments on capital lease obligations for the next five years are as follows:

<u>Year Ending December 31,</u>	
2006	\$ 25,170
2007	<u>16,780</u>
	41,950
Less amount representing interest on capital lease obligations	<u>(3,457)</u>
Total	<u><u>\$ 38,493</u></u>

#### **NOTE 5 – NET PATIENT SERVICE REVENUE**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare** — Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostics, and other factors. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The Medicare cost reports through the year ended December 31, 2004 have been submitted to the intermediary and have been settled.

**Medicaid** — Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a charge reimbursement methodology. Outpatient and other ancillary services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology.

The District also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

A summary of patient service revenue and contractual adjustments is as follows:

	<u>2005</u>	<u>2004</u>
Total Patient Service Revenue	\$ 8,497,091	\$ 9,176,955
Contractual Adjustments:		
Medicare	(1,110,960)	(922,146)
Medicaid	(646,039)	(700,568)
Other	<u>(383,999)</u>	<u>(310,858)</u>
Total Contractual Adjustments	(2,140,998)	(1,933,572)
Charity Care	<u>(176,508)</u>	<u>(114,719)</u>
Net Patient Service Revenue	<u>\$ 6,179,585</u>	<u>\$ 7,128,664</u>

#### **NOTE 6 – CHARITY CARE**

As part of its community service, the District provides services for care of the poor. The District provides a certain amount of patient care and other services at a discounted rate or free of charge to needy persons. During the years ended December 31, 2005 and 2004, the District recorded charity care allowances of \$176,508 and \$114,719, respectively.

#### **NOTE 7 – CONTINGENCIES AND COMMITMENTS**

**Litigation** — There is current litigation against the District filed by three former employees. All three plaintiffs allege that they have been wrongfully discriminated against on the basis of their race as Navajos and that they have been deprived of various civil rights. Near the end of 1999, the Navajo Nation District Court entered a preliminary injunction that reinstated the plaintiffs to the positions that each held at the time of the alleged discrimination. Thereafter, the plaintiffs filed suit in the United States District Court for Utah to enforce the Navajo Tribal Court judgment and added numerous other plaintiffs whose claims were unrelated to these claims brought by the three plaintiffs. The Federal District Court denied the plaintiffs' claims on the basis that the Navajo Tribal Court lacked jurisdiction over the District and its agents. In October 2005, the district court found that the tribal court lacked jurisdiction over the majority of the claims, with one minor exception. Plaintiffs sought reconsideration of the October 2005 ruling; their motion was denied and they appealed once again. The District defendants cross-appealed that part of the district court's ruling finding tribal court jurisdiction for certain of the plaintiffs' claims. In June 2005, the district court incorporated into a written ruling a dismissal from November 2002 all of the non-tribal court claims. The non-tribal court plaintiffs sought reconsideration, which was denied, and subsequently appealed. Their appeal has been combined with the October 2005 appeal and the cross-appeal of the District defendants. Because the outcome of this litigation is unknown, no amounts have been accrued in these financial statements.

One of the plaintiffs has also entered a complaint for damages, alleging various wrongdoings by the District. The complaint seeks compensatory and punitive damages in the amount of \$500,000. The District has filed counterclaims against this plaintiff. The District is vigorously contesting this litigation. Because the outcome of this litigation is unknown, no amounts have been accrued in these financial statements.

## NOTE 8 – RETIREMENT PLAN

The District has a defined contribution profit sharing plan covering substantially all employees with one year of service. Prior to January 2003, employees had to be 18 years of age or older to be eligible to participate in the plan. Subsequent to January 2003, employees have to be 21 years of age or older to be eligible to participate. The Plan is administered by Equitable Life Assurance Society of the United States. Prior to January 2003, vesting took place over six years. Subsequent to January 2003, vesting takes place after one year. At the end of the vesting period, the participant is 100% vested. The funds are invested in various funds of Equitable Life Assurance and are directed by the participants.

The District has discretion as to the amount it contributes to the plan on behalf of its employees. The District's contribution is limited to 10% of qualified wages. The total amount of employer contributions for 2005 and 2004 was \$298,651 and \$300,564, respectively.

## NOTE 9 – DEFERRED COMPENSATION AGREEMENT

The District offers a deferred compensation plan for its employees. The plan is structured and operated in accordance with the provisions of Internal Revenue Code Section 457. The plan is available to all eligible District employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all assets and rights purchased with those amounts, and all income attributable to those amounts, assets or rights are solely the assets and rights of the employee (without being restricted to the provisions of benefits under the Plan), and are not subject to the claims of the District's general creditors.

Employees who elect to participate in the plan do so via payroll deductions. On behalf of those employees, the District forwards their deductions to a third party administrator who acts as trustee for the employees' investment. All plan assets are held in trust by a third party administrator. In accordance with GASB 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans," the District has not included these assets in its investments. The District has no trustee responsibilities or claim on these funds.

## NOTE 10 – CONCENTRATIONS OF CREDIT RISK

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2005 and 2004, was as follows:

	<u>2005</u>	<u>2004</u>
Other third-party payors	52 %	40 %
Medicare	23	30
Patients	16	17
Medicaid	<u>9</u>	<u>13</u>
	<u>100 %</u>	<u>100 %</u>

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Accounting Oversight Board



## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
San Juan Health Services District  
Monticello, Utah

We have audited the financial statements of San Juan Health Services District as of and for the year ended December 31, 2005, and have issued our report thereon, dated March 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered San Juan Health Services District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Juan Health Services District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in a separate letter to the Board of Directors dated March 8, 2006.

This report is intended for the information of the board, management and the Utah State Auditor's Office.

*Hansen Barnett & Maxwell*  
HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah  
March 8, 2006

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE WITH STATE OF UTAH LEGAL REQUIREMENTS APPLICABLE TO AUDITS OF LOCAL GOVERNMENTS IN UTAH

Board of Directors  
San Juan Health Services District  
Monticello, Utah

We have audited the financial statements of San Juan Health Services District (the "District"), for the year ended December 31, 2005, and have issued our report thereon dated March 8, 2006. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Compliance Issues

The management of the District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, San Juan Health Services District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

*Hansen Barnett & Maxwell*  
HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah  
March 8, 2006